

CITY OF FAIRFIELD, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

CITY OF FAIRFIELD, IOWA

TABLE OF CONTENTS
JUNE 30, 2011

	<u>PAGE</u>
<u>OFFICIALS</u>	1
<u>INDEPENDENT AUDITOR'S REPORT</u>	2-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4-9
<u>BASIC FINANCIAL STATEMENTS:</u>	<u>EXHIBIT</u>
GOVERNMENT-WIDE FINANCIAL STATEMENT: STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS	A 10-11
GOVERNMENTAL FUND FINANCIAL STATEMENT: STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	B 12-13
PROPRIETARY FUND FINANCIAL STATEMENT: STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	C 14
NOTES TO FINANCIAL STATEMENTS	15-23
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS	24-25
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING	26
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	<u>SCHEDULE</u>
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS	1 27-28
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – NONMAJOR PROPRIETARY FUNDS	2 29
SCHEDULE OF INDEBTEDNESS	3 30-31
BOND AND NOTE MATURITIES	4 32-33
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION – ALL GOVERNMENTAL FUNDS	5 34-35
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6 36
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	37-38
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	39-40
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	41-47

CITY OF FAIRFIELD, IOWA

OFFICIALS
JUNE 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	January 2012
Myron Gookin	Council Member/Mayor Pro Tem	January 2014
Michael Halley	Council Member	January 2014
John F. Revolinski	Council Member	January 2014
Ron Adam	Council Member	January 2012
Daryn Hamilton	Council Member	January 2012
Ray Mottet	Council Member	January 2012
Susan Silvers	Council Member	January 2012
Jeff Clawson	City Administrator	Indefinite
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairfield, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2012 on our consideration of the City of Fairfield, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfield, Iowa's basic financial statements. The financial statements for the eight years ended June 30, 2010 (which are not presented herein) were audited by other auditors. The other auditors expressed unqualified opinions on those financial statements which were prepared in accordance with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
March 30, 2012

CITY OF FAIRFIELD, IOWA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

The City of Fairfield, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts (including transfers) from the City's governmental activities increased 57.4% or \$5,522,121 from fiscal year 2010 to fiscal 2011.
- Disbursements of the City's governmental activities increased 17.6% or \$1,764,648 from fiscal 2010 to fiscal 2011. Public works disbursements decreased \$940,616 while community and economic development expenditures increased \$963,330, debt service disbursements increased \$752,275 and capital projects disbursements increased \$1,301,543.
- The City's total cash basis net assets increased 294.4% or \$3,855,396 from June 30, 2010 to June 30, 2011. Of this amount, the net assets of the governmental activities increased \$3,316,407 and the net assets of the business type activities increased by \$538,989. This increase is due primarily to proceeds from long-term debt.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets - Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operation in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets - Cash Basis reports information that helps answer this question.

The Statement of Activities and Net Assets - Cash Basis present the City's cash basis net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets - Cash Basis is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer, yard waste, airport hanger and Logan apartments. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two enterprise Funds to provide separate information for the water and sewer funds, both are considered to be major funds of the City. In addition, there are three nonmajor enterprise funds.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$366,650 to \$3,683,057. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 602,577	\$ 395,174
Operating grants, contributions and restricted interest	1,448,265	1,132,452
Capital grants, contributions and restricted interest	1,279,389	1,194,547
General receipts:		
Property and other city tax, including tax increment financing	4,458,315	4,506,391
Local option sales tax	783,572	784,581
Hotel/motel tax	93,222	109,792
Utility franchise tax	90,064	65,632
Unrestricted interest on investments	14,251	31,079
General obligation debt proceeds	5,995,850	849,150
Revenue bond proceeds	-	550,000
Sale of capital assets	20,150	-
Other general receipts	95,638	173,112
Total receipts	<u>14,881,293</u>	<u>9,791,910</u>
Disbursements:		
Public safety	1,857,711	1,705,256
Public works	120,088	1,060,704
Health and social services	39,585	13,000
Culture and recreation	1,491,155	1,641,994
Community and economic development	1,263,995	300,665
General government	815,111	1,155,196
Debt service	2,787,905	2,035,630
Capital projects	3,444,543	2,143,000
Total disbursements	<u>11,820,093</u>	<u>10,055,445</u>
Change in cash basis net assets before transfers	3,061,407	(263,535)
Transfers, net	<u>255,207</u>	<u>(177,531)</u>
Change in cash basis net assets	3,316,407	(441,066)
Cash basis net assets beginning of year	<u>366,650</u>	<u>807,716</u>
Cash basis net assets end of year	\$ <u>3,683,057</u>	\$ <u>366,650</u>

The City's total receipts and transfers for governmental activities increased 57.4% or \$5,522,121. Excluding transfers, receipts increased \$5,089,383 or 52.0% from the prior year. The increase in receipts was primarily the result of proceeds from debt received by the City during the current year.

The total cost (disbursements) of all programs and services increased by \$1,764,648 or 17.6%. The increase in disbursements was primarily the result of more expenditure for capital projects and debt service during the current year.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Water	\$ 2,314,791	\$ 2,044,554
Sewer	2,209,827	1,840,840
Airport hangar	69,553	69,703
Logan Apartments	149,357	148,323
Yard Waste	421,010	397,674
Operating grants, contributions and restricted interest	212,634	87,119
General receipts:		
Other general receipts	100,638	150,862
Total receipts	<u>5,477,810</u>	<u>4,739,075</u>
Disbursements and transfers:		
Water	2,204,035	2,242,407
Sewer	1,554,257	1,568,016
Airport Hangar	249,096	154,787
Logan Apartments	196,536	193,054
Yard waste	479,690	450,482
Total disbursements	<u>4,683,614</u>	<u>4,608,746</u>
Change in cash basis net assets before transfers	794,196	130,329
Transfers, net	(255,207)	177,531
Cash basis net assets beginning of year	<u>942,964</u>	<u>635,104</u>
Cash basis net assets end of year	\$ <u>1,481,953</u>	\$ <u>942,964</u>

Total business type activities receipts for the fiscal year increased \$738,735 or 15.6%. The increase in receipts was primarily the result of an increase in water and sewer collections.

Total business type activities disbursements and transfers increased \$74,868 or 1.6%. This resulted primarily from a increase in airport hanger expenditures.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfield, Iowa completed the year, its governmental funds reported a combined fund balance of \$3,683,057, an increase of \$3,316,407 from last year's total of \$366,650. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$890,326 from the prior year to \$(187,224). Disbursements increased, primarily due to an increase in community and economic environment, general government and capital projects expenditures.
- The Special Revenue, Road Use Tax Fund cash balance increased \$26,312, or 30.0%, to \$113,973. This was primarily due to an increase in road use tax receipts.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$664,924, or 611.1%, to \$773,741. Disbursements decreased \$710,991 due in part, to the purchase of the Civic Center during fiscal year 2010.

- The Special Revenue, Employee Benefits Fund cash balance increased \$160,967, or 72.3%, to \$383,535. This increase was primarily due to an increase in property tax receipts and a decrease in transfers out.
- The Special Revenue, Energy Efficiency Fund cash balance increased \$383,666, or 908.0%, to \$341,410. The increase was due to the receipt of \$420,000 of long-term debt proceeds.
- The Special Revenue, Fairfield Library Foundation Fund cash balance increased \$380,914, or 74.7%, to \$890,832. The increase was due to a transfer in from the library endowment fund.
- The Debt Service Fund cash balance increased \$43,594 to \$149,661, which is a similar increase to the prior year.
- The Capital Projects Fund cash balance increased \$2,591,492 to \$411,707. This increase is primarily due to transfers in and proceeds from long term debt.
- The Permanent, Library Endowment Fund cash balance increased \$9,556 from the prior year to \$477,120 due to an excess of receipts over transfers out.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$332,530 to \$(164,128), primarily due to an increase in transfers out.
- The Sewer Fund cash balance increased \$874,079 to \$1,553,095, primarily due to the increase in sewer collections and a decrease in expenditures.

BUDGETARY HIGHLIGHTS

The City amended its budget one time during the year, increasing budgeted disbursements from \$13,697,057 to \$16,002,040, primarily due to capital projects and public safety expenditures.

The City's receipts were \$3,403,390 less than budgeted. This was primarily due to the City receiving less charges for service and use of money and property in the current year compared to budget.

Even with the budget amendment, total disbursements were \$501,667 more than the amended budget. This was due, in part, to increase in capital project and debt services activity.

The City exceeded the amount budgeted in the community and economic development, general government, debt service and capital projects functions for the year ended June 30, 2011, due primarily to various capital projects and debt service activities which were not budgeted.

DEBT ADMINISTRATION

At June 30, 2011 the City had \$16,981,726 in bonds and other long-term debt, compared to \$13,615,892 last year, as shown below.

Outstanding Debt at Year End

	Year ending June 30,	
	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 10,345,000	\$ 6,439,150
General obligation capital loan notes	1,130,000	1,350,000
Water revenue capital loan notes	4,421,000	4,718,000
Local option sales and services tax revenue bonds	550,000	550,000
General obligation anticipation note	500,000	500,000
Lease purchase agreements	<u>35,726</u>	<u>58,742</u>
Total	\$ <u>16,981,726</u>	\$ <u>13,615,892</u>

Debt increased due to debt issuance in excess of payments made on outstanding debt during the fiscal year.

The City carries a general obligation bond rating of A2 assigned by national rating agencies on the \$4,915,000 general obligation bonds issued on July 1, 2010. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of approximately \$12.0 million is below its constitutional debt limit of approximately \$13.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The elected and appointed officials of the City of Fairfield considered many factors when setting the fiscal year 2012 budget, tax rates and fees for various City services. One of those factors is the economy. Average unemployment in Jefferson County was 6.7% (October 2011) versus 7.5% a year ago. This compares with the State's unemployment rate of 6.0% and the national rate of 9.0%.

These indicators were taken into account when adopting the budget for fiscal year 2012. The tax rate for fiscal year 2012 is \$16.36 per thousand dollars of taxable valuation. Although this is a slight increase compared to the tax rate for fiscal year 2011 of \$16.10 per thousand dollars of taxable valuation, assessed valuations continue to increase. Amounts available for appropriation in the operating budget are approximately \$12.5 million, a decrease of 27.8% from the final fiscal year 2011 budget. Budgeted disbursements are expected to decrease approximately \$7,168,148. This decrease is primarily due to business type activities. The City has added no new programs to the fiscal year 2012 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$3,667,582 by the close of fiscal year 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joy Messer, City Clerk, 118 South Main Street, Fairfield, Iowa 52556-0850.

BASIC FINANCIAL STATEMENTS

CITY OF FAIRFIELD, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<u>GOVERNMENTAL ACTIVITIES:</u>				
Public safety	\$ 1,857,711	\$ 152,361	\$ 2,764	\$ -
Public works	120,088	15,874	870,177	-
Health and social services	39,585	-	-	-
Culture and recreation	1,491,155	378,755	467,543	-
Community and economic development	1,263,995	12,100	51,070	-
General government	815,111	20,865	-	-
Debt service	2,787,905	-	4,418	-
Capital projects	3,444,543	22,622	52,293	1,279,389
Total governmental activities	11,820,093	602,577	1,448,265	1,279,389
<u>BUSINESS TYPE ACTIVITIES:</u>				
Water	2,204,035	2,314,791	-	-
Sewer	1,554,257	2,209,827	-	-
Airport hangar	249,096	69,553	118,950	-
Logan Apartments	196,536	149,357	93,684	-
Yard waste	479,690	421,010	-	-
Total business type activities	4,683,614	5,164,538	212,634	-
TOTAL	\$ 16,503,707	\$ 5,767,115	\$ 1,660,899	\$ 1,279,389

GENERAL RECEIPTS AND TRANSFERS:

Property and other city tax levied for:
 General purposes
 Debt service
 Employee benefits
 Tax increment financing
 Local option sales tax
 Hotel/motel tax
 Utility franchise tax
 Unrestricted interest on investments
 General obligation debt proceeds
 Sale of capital assets
 Miscellaneous
 Transfers
 Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

CASH BASIS NET ASSETS:

Restricted:
 Nonexpendable:
 Permanent fund
 Expendable:
 Urban renewal purposes
 Debt service
 Streets
 Other purposes
 Unrestricted

Total basis net assets

See Notes to Financial Statements

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (1,702,586)	\$ -	\$ (1,702,586)
765,963	-	765,963
(39,585)	-	(39,585)
(644,857)	-	(644,857)
(1,200,825)	-	(1,200,825)
(794,246)	-	(794,246)
(2,783,487)	-	(2,783,487)
<u>(2,090,239)</u>	<u>-</u>	<u>(2,090,239)</u>
(8,489,862)	-	(8,489,862)
-	110,756	110,756
-	655,570	655,570
-	(60,593)	(60,593)
-	46,505	46,505
<u>-</u>	<u>(58,680)</u>	<u>(58,680)</u>
-	693,558	693,558
\$ (8,489,862)	\$ 693,558	\$ (7,796,304)
\$ 2,551,888	\$ -	\$ 2,551,888
865,367	-	865,367
787,879	-	787,879
253,181	-	253,181
783,572	-	783,572
93,222	-	93,222
90,064	-	90,064
14,251	-	14,251
5,995,850	-	5,995,850
20,150	-	20,150
95,638	100,638	196,276
<u>255,207</u>	<u>(255,207)</u>	<u>-</u>
<u>11,806,269</u>	<u>(154,569)</u>	<u>11,651,700</u>
3,316,407	538,989	3,855,396
<u>366,650</u>	<u>942,964</u>	<u>1,309,614</u>
\$ <u>3,683,057</u>	\$ <u>1,481,953</u>	\$ <u>5,165,010</u>
\$ 1,367,952	\$ -	\$ 1,367,952
8,857	-	8,857
149,661	676,484	826,145
113,973	-	113,973
1,880,468	-	1,880,468
<u>162,146</u>	<u>805,469</u>	<u>967,615</u>
\$ <u>3,683,057</u>	\$ <u>1,481,953</u>	\$ <u>5,165,010</u>

CITY OF FAIRFIELD, IOWA

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

	Special Revenue				
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits	Energy Efficiency
RECEIPTS:					
Property tax	\$ 2,376,657	\$ -	\$ -	\$ 787,879	\$ -
Tax increment financing	-	-	-	-	-
Other City tax	183,286	-	783,572	-	-
Licenses and permits	23,588	-	-	-	-
Use of money and property	15,251	-	-	-	-
Intergovernmental	84,936	870,177	-	-	34,036
Charges for service	480,915	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	100,626	-	-	-	-
Total receipts	<u>3,265,259</u>	<u>870,177</u>	<u>783,572</u>	<u>787,879</u>	<u>34,036</u>
DISBURSEMENTS:					
Operating:					
Public safety	1,371,334	138,393	31,496	316,488	-
Public works	-	2,802	-	117,286	-
Health and social services	13,901	-	25,684	-	-
Culture and recreation	1,309,628	-	42,088	114,448	-
Community and economic development	550,496	597,091	-	-	-
General government	717,041	-	19,380	78,690	-
Debt service	-	-	-	-	-
Capital projects	436,973	105,579	-	-	70,370
Total disbursements	<u>4,399,373</u>	<u>843,865</u>	<u>118,648</u>	<u>626,912</u>	<u>70,370</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,134,114)</u>	<u>26,312</u>	<u>664,924</u>	<u>160,967</u>	<u>(36,334)</u>
Other financing sources (uses):					
General obligation debt proceeds	902,875	-	-	-	420,000
Proceeds from sale of capital assets	20,150	-	-	-	-
Operating transfers in	361,180	-	-	-	-
Operating transfers out	<u>(1,040,417)</u>	-	-	-	-
Total other financing sources (uses)	<u>243,788</u>	-	-	-	<u>420,000</u>
Net change in cash balances	<u>(890,326)</u>	<u>26,312</u>	<u>664,924</u>	<u>160,967</u>	<u>383,666</u>
CASH BALANCES - Beginning of year	<u>703,102</u>	<u>87,661</u>	<u>108,817</u>	<u>222,568</u>	<u>(42,256)</u>
CASH BALANCES - End of year	<u>\$ (187,224)</u>	<u>\$ 113,973</u>	<u>\$ 773,741</u>	<u>\$ 383,535</u>	<u>\$ 341,410</u>
CASH BASIS FUND BALANCES:					
Nonspendable - Permanent fund	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for:					
Urban renewal purposes	-	-	-	-	-
Debt service	-	-	-	-	-
Streets	-	113,973	-	-	-
Other Purposes	-	-	773,741	383,535	341,410
Assigned	-	-	-	-	-
Unassigned	<u>(187,224)</u>	-	-	-	-
Total cash basis fund balances	<u>\$ (187,224)</u>	<u>\$ 113,973</u>	<u>\$ 773,741</u>	<u>\$ 383,535</u>	<u>\$ 341,410</u>

Fairfield Public Library Foundation	Debt Service	Capital Projects	Permanent		Total
			Library Endowment	Nonmajor	
\$ -	\$ 865,367	\$ 175,231	\$ -	\$ -	\$ 4,205,134
-	-	-	-	253,181	253,181
-	-	-	-	-	966,858
-	-	-	-	-	23,588
-	-	-	-	9,115	24,366
-	-	1,211,860	-	69,285	2,270,294
-	-	-	-	-	480,915
-	4,418	67,529	-	-	71,947
-	-	22,622	390,470	55,292	569,010
-	<u>869,785</u>	<u>1,477,242</u>	<u>390,470</u>	<u>386,873</u>	<u>8,865,293</u>
-	-	-	-	-	1,857,711
-	-	-	-	-	120,088
-	-	-	-	-	39,585
-	-	-	-	24,991	1,491,155
-	-	-	-	116,408	1,263,995
-	-	-	-	-	815,111
-	2,787,905	-	-	-	2,787,905
-	-	2,784,636	-	46,985	3,444,543
-	<u>2,787,905</u>	<u>2,784,636</u>	-	<u>188,384</u>	<u>11,820,093</u>
-	<u>(1,918,120)</u>	<u>(1,307,394)</u>	<u>390,470</u>	<u>198,489</u>	<u>(2,954,800)</u>
-	1,163,081	3,509,894	-	-	5,995,850
-	-	-	-	-	20,150
380,914	798,633	388,992	-	-	1,929,719
-	-	-	(380,914)	(253,181)	(1,674,512)
<u>380,914</u>	<u>1,961,714</u>	<u>3,898,886</u>	<u>(380,914)</u>	<u>(253,181)</u>	<u>6,271,207</u>
380,914	43,594	2,591,492	9,556	(54,692)	3,316,407
<u>509,918</u>	<u>106,067</u>	<u>(2,179,785)</u>	<u>467,664</u>	<u>382,994</u>	<u>366,650</u>
\$ <u>890,832</u>	\$ <u>149,661</u>	\$ <u>411,707</u>	\$ <u>477,120</u>	\$ <u>328,302</u>	\$ <u>3,683,057</u>
\$ 890,832	\$ -	\$ -	\$ 477,120	\$ -	\$ 1,367,952
-	-	-	-	8,857	8,857
-	149,661	-	-	-	149,661
-	-	-	-	-	113,973
-	-	-	-	381,782	1,880,468
-	-	411,707	-	-	411,707
-	-	-	-	(62,337)	(249,561)
\$ <u>890,832</u>	\$ <u>149,661</u>	\$ <u>411,707</u>	\$ <u>477,120</u>	\$ <u>328,302</u>	\$ <u>3,683,057</u>

CITY OF FAIRFIELD, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>
<u>Operating receipts:</u>				
Use of money and property	\$ -	\$ -	\$ 284,374	\$ 284,374
Charges for service	2,314,791	2,209,827	421,010	4,945,628
Intergovernmental	-	-	212,634	212,634
Miscellaneous	5,417	25,013	4,744	35,174
Total operating receipts	<u>2,320,208</u>	<u>2,234,840</u>	<u>922,762</u>	<u>5,477,810</u>
<u>Operating disbursements:</u>				
Business type activities	<u>1,451,397</u>	<u>1,099,473</u>	<u>852,033</u>	<u>3,402,903</u>
Excess of operating receipts over operating disbursements	<u>868,811</u>	<u>1,135,367</u>	<u>70,729</u>	<u>2,074,907</u>
<u>Non-operating receipts (disbursements):</u>				
Capital projects and equipment	(302,303)	(454,784)	(73,289)	(830,376)
Debt service	<u>(450,335)</u>	<u>-</u>	<u>-</u>	<u>(450,335)</u>
Net non-operating receipts (disbursements)	<u>(752,638)</u>	<u>(454,784)</u>	<u>(73,289)</u>	<u>(1,280,711)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>116,173</u>	<u>680,583</u>	<u>(2,560)</u>	<u>794,196</u>
<u>Other financing sources (uses):</u>				
Operating transfers in	-	193,496	-	193,496
Operating transfers out	<u>(448,703)</u>	<u>-</u>	<u>-</u>	<u>(448,703)</u>
Total other financing sources (uses)	<u>(448,703)</u>	<u>193,496</u>	<u>-</u>	<u>(255,207)</u>
Net change in cash balances	<u>(332,530)</u>	<u>874,079</u>	<u>(2,560)</u>	<u>538,989</u>
<u>CASH BALANCES</u> - Beginning of year	<u>168,402</u>	<u>679,016</u>	<u>95,546</u>	<u>942,964</u>
<u>CASH BALANCES</u> - End of year	\$ <u>(164,128)</u>	\$ <u>1,553,095</u>	\$ <u>92,986</u>	\$ <u>1,481,953</u>
<u>Cash Basis Fund Balances</u>				
Restricted for debt service	\$ 676,484	\$ -	\$ -	\$ 676,484
Unrestricted	<u>(840,612)</u>	<u>1,553,095</u>	<u>92,986</u>	<u>805,469</u>
Total cash basis fund balances	\$ <u>(164,128)</u>	\$ <u>1,553,095</u>	\$ <u>92,986</u>	\$ <u>1,481,953</u>

CITY OF FAIRFIELD, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fairfield, Iowa is a political subdivision of the State of Iowa located in Jefferson County. It was first incorporated in 1847 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairfield, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Fairfield, Iowa (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

Friends of the Fairfield Public Library, Fairfield Public Library Foundation and Fairfield Parks and Recreation Foundation were established as non-profit corporations in accordance with Chapter 504A of the Code of Iowa. These non-profit corporations are legally separate from the City but are so intertwined with the City that they are, in substance, the same as the City. Their purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds. The funds of these components units are reported as part of the City and blended into the Special Revenue Funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Jefferson County Assessor's Conference Board, Jefferson County Emergency Management Agency and Jefferson County E911 Joint Service Board. The City also participates in the Jefferson County Regional Service Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets - Cash Basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets - Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds and all remaining proprietary funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax collections.

The Employee Benefits Fund is used to account for the employee benefit tax levy used to fund pension and related employee benefits.

The Energy Efficiency Fund is used to account for the grants/loans received by the City for energy efficiency related improvements to City property.

The Fairfield Public Library Foundation Fund is used to account for donations received and purchases made for the benefit of the Fairfield Public Library.

The Debt Service is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through enterprise funds.

The Permanent, Library Endowment Fund is used to account for funds given to the library for endowment purposes.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer systems.

C. Measurement Focus and Basis of Accounting

The City of Fairfield, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2: CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the City and its component units had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Mutual Funds	\$ 613,860	\$ 709,792	N/A
Stocks	886	736	N/A
Corporate Bonds:			
Bank of America	5,000	4,911	December 15, 2026
Ohio State Development Assistance	10,000	10,517	April 1, 2017
Washington MO CTFT Build America	\$ 10,000	\$ 10,239	October 1, 2016

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Concentration of credit risk – The City and the Fairfield Library Foundation place no limits on the amount that may be invested in any one issuer. However, the City's policy requires the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

NOTE 3: LEASE-PURCHASE AGREEMENTS

The City has entered into a capital lease purchase agreement to lease a dump truck. The following is a schedule of the future minimum lease payments, including interest at 6.01% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2011:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 19,489
2013	<u>19,489</u>
Total minimum lease payments	38,978
Less amount representing interest	<u>(3,252)</u>
Present value of net minimum lease payments	\$ <u>35,726</u>

During the year ended June 30, 2011, the City made principal payments of \$23,016 and interest payments of \$3,745 on capital leases.

NOTE 4: BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, general obligation capital loan notes, water revenue capital loan notes and local option sales and services tax revenue bonds are as follows:

CITY OF FAIRFIELD, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4: BONDS AND NOTES PAYABLE (Continued)

Year Ending June 30,	General Obligation				Water Revenue		Local Option Sales and Services		Total	
	Bonds		Capital Loan Notes		Capital Loan Notes		Tax Revenue Bonds		Principal	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 925,000	\$ 333,805	\$ 220,000	\$ 51,445	\$ 307,000	\$ 143,682	\$ -	\$ 29,038	\$ 1,452,000	\$ 557,970
2013	955,000	304,205	225,000	42,445	317,000	133,705	65,000	18,524	1,582,000	498,879
2014	985,000	280,442	225,000	32,785	327,000	123,402	65,000	16,899	1,602,000	453,528
2015	1,010,000	254,150	230,000	22,445	338,000	112,775	65,000	15,063	1,643,000	404,433
2016	1,045,000	225,195	230,000	11,520	349,000	101,790	65,000	12,998	1,689,000	351,503
2017-2021	4,570,000	631,238	-	-	1,923,000	331,305	280,000	24,990	6,783,000	987,633
2022-2023	850,000	32,680	-	-	860,000	42,153	-	-	1,710,000	74,833
Total	\$ 10,340,000	\$ 2,061,715	\$ 1,130,000	\$ 160,840	\$ 4,421,000	\$ 988,812	\$ 550,000	\$ 117,512	\$ 16,441,000	\$ 3,328,679

Water Revenue Capital Loan Notes – On February 13, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$5,797,000 of water revenue capital loan notes with interest at 3.00% per annum. The agreement requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$5,797,000 of water revenue capital loan notes issued in February 2003. Proceeds from the notes provided financing for the construction of water main improvements and extensions. The notes are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require less than 89% of net receipts. The total principal and interest remaining to be paid on the notes is \$5,409,812. For the current year, total principal and interest paid on the February 2003 notes was \$450,335 and total customer net receipts were \$566,508.

The note resolution requires the City to provide for rates to be charged to produce net operating revenues equal to at least 110% of the principal and interest coming due in the next succeeding year for the February 2003 debt issuance.

The resolution providing for the issuance of the water revenue capital loan notes includes the following provisions:

- The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- Additional monthly transfers of 25% of the amount required to be deposited in the water revenue note sinking account shall be made to a water reserve account until \$451,202 is accumulated and maintained. At June 30, 2011, the balance in this account was \$483,747.
- All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any notes and then can be used for any lawful purpose.

The City has made the transfers to the water sinking and reserve accounts as required by the water revenue capital loan note resolution.

Local Option Sales and Services Tax Revenue Bonds

On June 29, 2010, the City issued local option sales and services tax revenue bonds for the purpose of purchasing the Fairfield Arts and Convention Center (formerly the Jefferson County Civic Center, Inc.).

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4: BONDS AND NOTES PAYABLE (Continued)

- a) The bonds will only be redeemed from the future net revenues of local option tax revenues and the bond holders hold a lien on the future local option tax revenues received by the City.
- b) Sufficient monthly transfers shall be made to a separate local option sales tax sinking account for the purpose of making the bond principal and interest payments when due.
- c) Additional monthly transfers of 25% of the amount required to be deposited in the local option sales tax sinking account shall be made to a local option sales tax reserve account until \$55,000 is accumulated and maintained.

NOTE 5: GENERAL OBLIGATION ANTICIPATION NOTES

On June 10, 2009, the City issued a \$500,000 general obligation anticipation note to pay the costs of a streetscape and landscaping project in the downtown area. The note bears interest at 4.25% per annum and was due on October 15, 2009. The due date on the note was extended until October 15, 2011. The note is to be repaid through the issuance of long-term general obligation debt.

NOTE 6: PENSION AND RETIREMENT BENEFITS

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$155,562, \$138,654, and \$126,549, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report including financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2011, 2010 and 2009 were \$145,705, \$120,175 and \$128,106, respectively, which met the required minimum contributions for each year.

NOTE 7: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 62 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partial self funding of the City's health insurance benefit plan. The plan is funded by both employee and City contributions and is administered through a service agreement with Employee Benefit Systems. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members range from \$346 to \$408 for single coverage and from \$829 to \$946 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$370,716 and plan members eligible for benefits contributed \$109,873 to the plan.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8: COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2011, primarily relating to the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 64,501
Sick leave	<u>121,217</u>
Total	\$ <u>185,718</u>

This liability has been computed based on rates of pay in effect at June 30, 2011. Sick leave is payable when used or, after an employment period of twenty years, upon termination, retirement or death. Accumulated sick leave hours are paid at the rate of one-half upon retirement or death and one-fourth upon termination.

NOTE 9: RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contribution to the Pool for the year ended June 30, 2011 was \$217,525.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pools inception.

CITY OF FAIRFIELD, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9: RISK MANAGEMENT (Continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, and other property and liability. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10: DEVELOPMENT REBATE AGREEMENT

In November 2005, the City entered into a development rebate agreement to assist in an urban renewal project. The City agreed to rebate incremental property tax paid by the developer in exchange for the construction of Jefferson County Civic Center, Inc., (Civic Center) as set forth in the urban renewal plan. The agreement provides for the exclusion from taxation of the Civic Center for a period of two years during construction. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of thirty years beginning with the tax year in which the property tax on the completed value of the Civic Center is first paid. As of June 30, 2011, \$250,874 has been paid to the developer. During fiscal year 2010, the City purchased the Civic Center and, for fiscal year 2011, the City is no longer receiving any incremental property tax.

NOTE 11: DEFICIT BALANCES

The General Fund had a deficit balance of \$187,227 at June 30, 2011.

The Special Revenue, Iowa Power Fund had a deficit balance of \$62,337 at June 30, 2011.

The Enterprise Fund, Yard Waste Fund had deficit balances of \$157,484 at June 30, 2011.

The Water Fund had a deficit balance of \$164,128 at June 30, 2011.

The City is exploring alternatives to resolve the deficit balances.

CITY OF FAIRFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12: INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Water	\$ <u>361,180</u>
Special Revenue: Local Option Sales Tax	Capital Projects	
Debt Service	Special Revenue: Urban Renewal	253,181
	Tax Increment Financing	457,929
	General	
	Enterprise: Water	<u>87,523</u>
		<u>798,633</u>
Capital Projects	General	<u>388,992</u>
Enterprise: Sewer	General	<u>193,496</u>
Special Revenue: Fairfield Public Library Foundation	Permanent: Fairfield Public Library Endowment	<u>380,914</u>
Total		\$ <u>2,123,215</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 13: CONSTRUCTION COMMITMENTS

The City has entered into various construction contracts related to various City projects as of June 30, 2011. The remaining balance on the contracts will be paid as work on the projects progresses.

NOTE 14: LITIGATION

The City is involved in several lawsuits as of June 30, 2011. The probability of loss, if any, is undeterminable.

NOTE 15: RECLASSIFICATIONS

Certain amounts for the year ended June 30, 2010 have been reclassified to conform to the June 30, 2011 presentation.

NOTE 16: SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 30, 2012, the date the statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAIRFIELD, IOWA

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
<u>RECEIPTS:</u>			
Property tax	\$ 4,205,134	\$	\$ -
Tax increment financing	253,181	-	-
Other City tax	966,858	-	-
License and permits	23,588	-	-
Use of money and property	24,366	284,374	1,345
Intergovernmental	2,270,294	212,634	-
Charges for service	480,915	4,945,628	-
Special assessments	71,947	-	-
Miscellaneous	569,010	35,174	428,704
Total receipts	8,865,293	5,477,810	430,049
<u>DISBURSEMENTS:</u>			
Public safety	1,857,711	-	-
Public works	120,088	-	-
Health and social services	39,585	-	-
Culture and recreation	1,491,155	-	-
Community and economic development	1,263,995	-	-
General government	815,111	-	-
Debt service	2,787,905	450,335	-
Capital projects	3,444,543	830,376	-
Business type activities	-	3,402,903	-
Total disbursements	11,820,093	4,683,614	-
Excess (deficiency) of receipts over (under) disbursements	(2,954,800)	794,196	430,049
Other financing sources (uses), net	6,271,207	(255,207)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,316,407	538,989	430,049
<u>BALANCES - Beginning of year</u>	366,650	942,964	1,020,447
<u>BALANCES - End of year</u>	\$ 3,683,057	\$ 1,481,953	\$ 1,450,496

	<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to</u> <u>Total</u> <u>Variance</u>
		<u>Original</u>	<u>Final</u>	
\$	4,205,134	\$ 4,085,723	\$ 4,085,723	\$ 119,411
	253,181	532,168	532,168	(278,987)
	966,858	1,136,756	1,761,756	(794,898)
	23,588	39,122	129,122	(105,534)
	307,395	3,000	2,235,374	(1,927,979)
	2,482,928	2,396,925	2,396,925	86,003
	5,426,543	5,923,339	5,923,339	(496,796)
	71,947	34,237	68,237	3,710
	175,480	38,800	183,800	(8,320)
	<u>13,913,054</u>	<u>14,190,070</u>	<u>17,316,444</u>	<u>(3,403,390)</u>
	1,857,711	1,754,466	2,641,889	784,178
	120,088	1,026,742	1,036,357	916,269
	39,585	12,050	88,414	48,829
	1,491,155	1,493,794	1,505,778	14,623
	1,263,995	561,746	1,033,428	(230,567)
	815,111	504,664	568,959	(246,152)
	3,238,240	1,135,915	1,323,786	(1,914,454)
	4,274,919	1,800,000	2,395,749	(1,879,170)
	3,402,903	5,407,680	5,407,680	2,004,777
	<u>16,503,706</u>	<u>13,697,057</u>	<u>16,002,040</u>	<u>(501,666)</u>
	(2,590,653)	493,013	1,314,404	(3,905,057)
	<u>6,016,000</u>	<u>-</u>	<u>(26,000)</u>	<u>6,042,000</u>
	3,425,347	493,013	1,288,404	2,136,943
	<u>289,167</u>	<u>558,925</u>	<u>558,925</u>	<u>(269,758)</u>
\$	<u>3,714,514</u>	\$ <u>1,051,938</u>	\$ <u>1,847,329</u>	\$ <u>1,867,185</u>

CITY OF FAIRFIELD, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component units and the Permanent Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended once, increasing disbursements by \$2,304,983. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the community and economic development, general government, debt service and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FAIRFIELD, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Special Revenue</u>				
	<u>Urban Renewal</u> <u>Tax Increment</u> <u>Financing</u>	<u>Live on</u> <u>The Square</u>	<u>Indian</u> <u>Creek Escrow</u>	<u>Library</u> <u>Memorial</u>	<u>Library</u> <u>Building</u> <u>Trust</u>
<u>RECEIPTS:</u>					
Tax increment financing	\$ 253,181	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	-	42	7,628	100
Intergovernmental	-	-	-	-	-
Miscellaneous	-	1,475	-	15,583	-
Total receipts	<u>253,181</u>	<u>1,475</u>	<u>42</u>	<u>23,211</u>	<u>100</u>
<u>DISBURSEMENTS:</u>					
Operating:					
Culture and recreation	-	-	-	21,669	3,322
Community and economic development	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,669</u>	<u>3,322</u>
Excess (deficiency) of receipts over (under) disbursements	<u>253,181</u>	<u>1,475</u>	<u>42</u>	<u>1,542</u>	<u>(3,222)</u>
<u>OTHER FINANCING SOURCES (USES):</u>					
Transfers out	(253,181)	-	-	-	-
Total other financing sources (uses)	<u>(253,181)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	<u>-</u>	<u>1,475</u>	<u>42</u>	<u>1,542</u>	<u>(3,222)</u>
<u>CASH BALANCES - Beginning of year</u>	<u>8,857</u>	<u>7,661</u>	<u>16,595</u>	<u>11,241</u>	<u>3,375</u>
<u>CASH BALANCES - End of year</u>	<u>\$ 8,857</u>	<u>\$ 9,136</u>	<u>\$ 16,637</u>	<u>\$ 12,783</u>	<u>\$ 153</u>
<u>Cash Basis Fund Balances</u>					
Restricted for:					
Other purposes	\$ -	\$ 9,136	\$ 16,637	\$ 12,783	\$ 153
Urban renewal purposes	8,857	-	-	-	-
Unassigned	-	-	-	-	-
	<u>\$ 8,857</u>	<u>\$ 9,136</u>	<u>\$ 16,637</u>	<u>\$ 12,783</u>	<u>\$ 153</u>

SCHEDULE 1

Special Revenue						
<u>Fairfield Public Library House</u>	<u>Friends of the Fairfield Library</u>	<u>Fairfield Parks and Recreation Foundation</u>	<u>IJOBS</u>	<u>Iowa Power</u>	<u>UDAG-FALCO Project</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 253,181
-	-	1,345	-	-	-	9,115
-	-	-	51,028	18,257	-	69,285
-	-	38,234	-	-	-	55,292
-	-	39,579	51,028	18,257	-	386,873
-	-	-	-	-	-	24,991
-	-	-	90,408	-	26,000	116,408
-	-	-	-	46,985	-	46,985
-	-	-	90,408	46,985	26,000	188,384
-	-	39,579	(39,380)	(28,728)	(26,000)	198,489
-	-	-	-	-	-	(253,181)
-	-	-	-	-	-	(253,181)
-	-	39,579	(39,380)	(28,728)	(26,000)	(54,692)
3,901	994	41,971	39,380	(33,609)	282,628	382,994
\$ 3,901	\$ 994	\$ 81,550	\$ -	\$ (62,337)	\$ 256,628	\$ 328,302
\$ 3,901	\$ 994	\$ 81,550	\$ -	\$ -	\$ 256,628	\$ 381,782
-	-	-	-	-	-	8,857
-	-	-	-	(62,337)	-	(62,337)
\$ 3,901	\$ 994	\$ 81,550	\$ -	\$ -	\$ 256,628	\$ 328,302

CITY OF FAIRFIELD, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Airport Hanger</u>	<u>Logan Apartments</u>	<u>Yard Waste</u>	<u>Total</u>
<u>Operating receipts:</u>				
Use of money and property	\$ 135,017	\$ 149,357	\$ -	\$ 284,374
Charges for service	-	-	421,010	421,010
Intergovernmental	118,950	93,684	-	212,634
Miscellaneous	-	1,703	3,041	4,744
Total operating receipts	<u>253,967</u>	<u>244,744</u>	<u>424,051</u>	<u>922,762</u>
<u>Operating disbursements:</u>				
Business type activities	<u>175,807</u>	<u>196,536</u>	<u>479,690</u>	<u>852,033</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>78,160</u>	<u>48,208</u>	<u>(55,639)</u>	<u>70,729</u>
<u>Non-operating receipts (disbursements):</u>				
Capital projects and equipment	<u>(73,289)</u>	-	-	<u>(73,289)</u>
Net non-operating receipts (disbursements)	<u>(73,289)</u>	-	-	<u>(73,289)</u>
Net change in cash balances	4,871	48,208	(55,639)	(2,560)
<u>CASH BALANCES</u> - Beginning of year	<u>101,349</u>	<u>96,042</u>	<u>(101,845)</u>	<u>95,546</u>
<u>CASH BALANCES</u> - End of year	\$ <u>106,220</u>	\$ <u>144,250</u>	\$ <u>(157,484)</u>	\$ <u>92,986</u>
<u>Cash Basis Fund Balances</u>				
Unrestricted	\$ <u>106,220</u>	\$ <u>144,250</u>	\$ <u>(157,484)</u>	\$ <u>92,986</u>

CITY OF FAIRFIELD, IOWA

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Street obligation	January 2, 1958	2.60 %	\$ 85,000
Library and street construction	May 1, 1995	5.00-5.60	3,300,000
Essential corporate purpose	September 1, 2006	4.00	6,925,000
Essential corporate purpose	July 1, 2010	1.00-3.40	4,915,000
Total			
General obligation capital loan notes:			
General corporate purpose - series 2001A	May 1, 2001	4.00-4.80 %	\$ 4,330,000
Urban renewal project - series 2001B	May 1, 2001	6.00-6.45	325,000
Refinance of series 2001A	January 24, 2011	0.6-1.90	1,135,000
Total			
Revenue bonds:			
Local option sales and services tax	June 29, 2010	2.35-4.40 %	\$ 550,000
Water revenue capital loan notes:			
State revolving	February 13, 2003 *	3.00 %	\$ 5,797,000
General obligation anticipation notes:			
General obligation anticipation note	June 10, 2009	4.25 %	\$ <u>500,000</u>
Capital lease-purchase agreements:			
Dump truck	December 21, 2006	9.21 %	\$ 47,300
2010 Freightliner dump truck	October 12, 2009	6.01	77,958
Total			
Grand Total			

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

SCHEDULE 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed/ Cancelled During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Principal and Interest Due and Unpaid</u>
\$ 5,000	\$ -	\$ -	\$ 5,000	\$ -	\$ 5,664
340,000	-	165,000	175,000	9,520	-
6,045,000	-	395,000	5,650,000	226,559	-
49,150	4,865,850	400,000	4,515,000	51,003	-
<u>\$ 6,439,150</u>	<u>\$ 4,865,850</u>	<u>\$ 960,000</u>	<u>\$ 10,345,000</u>	<u>\$ 287,082</u>	<u>\$ 5,664</u>
\$ 1,310,000	\$ -	\$ 1,310,000	\$ -	\$ 30,448	\$ -
40,000	-	40,000	-	1,290	-
-	1,130,000	-	1,130,000	126,021	-
<u>\$ 1,350,000</u>	<u>\$ 1,130,000</u>	<u>\$ 1,350,000</u>	<u>\$ 1,130,000</u>	<u>\$ 157,759</u>	<u>\$ -</u>
\$ 550,000	\$ -	\$ -	\$ 550,000	\$ -	\$ -
\$ 4,718,000	\$ -	\$ 297,000	\$ 4,421,000	\$ 153,335	\$ -
\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ -
\$ 6,657	\$ -	\$ 6,657	\$ -	\$ 615	\$ -
52,085	-	16,359	35,726	3,130	-
<u>\$ 58,742</u>	<u>\$ -</u>	<u>\$ 23,016</u>	<u>\$ 35,726</u>	<u>\$ 3,745</u>	<u>\$ -</u>
<u>\$ 13,615,892</u>	<u>\$ 5,995,850</u>	<u>\$ 2,630,016</u>	<u>\$ 16,981,726</u>	<u>\$ 601,921</u>	<u>\$ 5,664</u>

CITY OF FAIRFIELD, IOWA

BOND AND NOTE MATURITIES

JUNE 30, 2011

Year Ending June 30,	General Obligation Bonds						
	Library and Street Construction		Essential Corporate Purpose		Essential Corporate Purpose		Total
	Issued May 1, 1995		Issued September 1, 2006		Issued July 1, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	5.600 %	\$ 175,000	4.000 %	\$ 410,000	1.000 %	\$ 340,000	\$ 925,000
2013		-	4.000	430,000	1.250	525,000	955,000
2014		-	4.000	450,000	1.550	535,000	985,000
2015		-	4.000	465,000	1.900	545,000	1,010,000
2016		-	4.000	485,000	2.150	560,000	1,045,000
2017		-	4.000	510,000	2.500	575,000	1,085,000
2018		-	4.000	530,000	2.750	595,000	1,125,000
2019		-	4.000	555,000	3.000	200,000	755,000
2020		-	4.000	580,000	3.000	205,000	785,000
2021		-	4.000	605,000	3.250	215,000	820,000
2022		-	4.000	630,000	3.400	220,000	850,000
2023		-		-		-	-
Total		\$ 175,000		\$ 5,650,000		\$ 4,515,000	\$ 10,340,000

SCHEDULE 4

General Obligation Refunding Capital Loan Notes 2011 Refinance			Water Revenue Capital Loan Notes - State Revolving			Local Option Sales and Services Tax Revenue Bonds		
Issued January 24, 2011			Issued February 13, 2003			Issued June 29, 2010		
Interest Rates		Amount	Interest Rates *		Amount	Interest Rates		Amount
0.600 %	\$	220,000	3.00 %	\$	307,000	%	\$	-
0.965		225,000	3.00		317,000	2.35		65,000
1.250		225,000	3.00		327,000	2.65		65,000
1.600		230,000	3.00		338,000	3.00		65,000
1.900		230,000	3.00		349,000	3.35		65,000
		-	3.00		360,000	3.75		70,000
		-	3.00		372,000	4.05		70,000
		-	3.00		384,000	4.20		75,000
		-	3.00		397,000	4.40		75,000
		-	3.00		410,000			-
		-	3.00		423,000			-
		-	3.00		437,000			-
	\$	<u>1,130,000</u>		\$	<u>4,421,000</u>		\$	<u>550,000</u>

CITY OF FAIRFIELD, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS

FOR THE LAST NINE YEARS

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>RECEIPTS:</u>				
Property tax	\$ 4,205,134	\$ 4,076,420	\$ 3,949,455	\$ 3,639,821
Tax increment financing	253,181	429,971	332,517	232,613
Other city tax	966,858	960,005	1,027,994	991,721
Licenses and permits	23,588	25,681	22,741	29,359
Use of money and property	24,366	43,279	89,382	88,133
Intergovernmental	2,270,294	2,179,131	1,463,822	3,217,212
Charges for service	480,915	350,499	303,182	292,480
Special assessments	71,947	64,130	75,582	44,482
Miscellaneous	569,010	263,644	507,741	248,944
Total	\$ <u>8,865,293</u>	\$ <u>8,392,760</u>	\$ <u>7,772,416</u>	\$ <u>8,784,765</u>
<u>DISBURSEMENTS:</u>				
Operating:				
Public safety	\$ 1,857,711	\$ 1,705,256	\$ 1,761,035	\$ 1,626,961
Public works	120,088	1,060,704	906,095	997,862
Health and social services	39,585	13,000	13,081	12,786
Culture and recreation	1,491,155	1,641,994	1,626,771	1,490,126
Community and economic development	1,263,995	300,665	199,972	116,881
General government	815,111	1,155,196	405,982	387,699
Non-program	-	-	-	-
Debt service	2,787,905	1,235,630	1,245,752	1,016,258
Capital projects	3,444,543	2,143,000	1,913,794	3,796,689
Total	\$ <u>11,820,093</u>	\$ <u>9,255,445</u>	\$ <u>8,072,482</u>	\$ <u>9,445,262</u>

SCHEDULE 5

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 3,350,952	\$ 3,236,344	\$ 3,037,373	\$ 2,852,293	\$ 3,088,534
210,355	229,701	230,189	411,499	316,671
968,336	911,782	914,871	1,037,115	959,462
21,441	27,043	24,228	15,800	14,960
104,655	45,527	107,630	80,340	38,694
4,965,682	2,635,955	2,758,221	1,012,520	2,255,519
323,930	346,434	337,963	316,174	321,895
51,081	27,614	33,834	59,290	51,290
284,838	197,893	192,099	317,859	170,190
<u>\$ 10,281,270</u>	<u>\$ 7,658,293</u>	<u>\$ 7,636,408</u>	<u>\$ 6,102,890</u>	<u>\$ 7,217,215</u>
\$ 1,570,831	\$ 1,589,215	\$ 1,751,741	\$ 2,035,789	\$ 2,006,603
942,597	977,938	898,017	900,369	871,806
17,801	9,720	12,220	9,720	6,683
1,591,083	1,536,035	1,444,278	1,289,611	1,305,919
100,958	107,223	85,867	163,464	101,835
374,948	397,803	342,499	346,384	306,993
-	-	-	-	36,722
1,116,957	901,491	901,981	942,223	1,104,910
7,085,671	3,845,328	2,527,712	783,568	2,101,125
<u>\$ 12,800,846</u>	<u>\$ 9,364,753</u>	<u>\$ 7,964,315</u>	<u>\$ 6,471,128</u>	<u>\$ 7,842,596</u>

CITY OF FAIRFIELD, IOWA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Housing and Urban Development -			
Office of Housing:			
Section 8 Housing Assistance Payments Program	14.195	IA050008008	\$ <u>93,684</u>
Indirect:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0033-09	<u>592,510</u>
National Highway Traffic Safety Administration:			
Iowa Department of Public Safety:			
Governor's Traffic Safety Bureau:			
Safety Belt Performance Grants	20.609	10-406, Task 59	2,753
Safety Belt Performance Grants	20.609	11-03, Task 466	<u>3,098</u>
			<u>5,851</u>
Total indirect			<u>598,361</u>
Total			\$ <u>692,045</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Fairfield, Iowa and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 30, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fairfield, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairfield, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfield, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fairfield, Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11, II-B-11, II-C-11, II-D-11 and II-E-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-F-11, II-G-11 and II-H-11 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfield, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fairfield, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Fairfield, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairfield, Iowa and other parties to whom the City of Fairfield, Iowa may report including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfield, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
March 30, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Honorable Mayor and Members
of the City Council

Compliance

We have audited the City of Fairfield, Iowa's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Fairfield, Iowa's major federal programs for the year ended June 30, 2011. The City of Fairfield, Iowa's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City of Fairfield, Iowa's management. Our responsibility is to express an opinion on the City of Fairfield, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on each of the City's major federal programs occurred. An audit includes examining, on a test basis, evidence about the City of Fairfield, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fairfield, Iowa's compliance with those requirements.

In our opinion, the City of Fairfield, Iowa complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

The management of the City of Fairfield, Iowa is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Fairfield, Iowa's internal control over compliance with requirements that could have a direct and material effect on each of the City's major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfield, Iowa's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

The City of Fairfield, Iowa's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's response, we did not audit the City of Fairfield, Iowa's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairfield, Iowa and other parties to whom the City of Fairfield, Iowa may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
March 30, 2012

CITY OF FAIRFIELD, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

Part I: Summary of the Independent Auditor's Results

- a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.
- d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) The major program was CFDA Number 20.106 – Airport Improvement Program.
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) The City of Fairfield, Iowa did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Internal Control Deficiencies:

II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee acts as a check of those of another. One person has control over each of the following areas for the City:

- a) Bank accounts were not reconciled by an individual who does not handle or record cash. Bank reconciliations were not reviewed by an independent person for propriety.
- b) Receipts – opening mail, collecting, depositing, journalizing and posting.
- c) Utility receipts – opening mail, billing collecting, depositing, posting, reconciling and maintaining detail accounts receivable records.
- d) Disbursements – preparing checks, signing checks and access to accounting records.
- e) Journal entries are not reviewed and approved. In addition, journal entries were not supported.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – Implementation of cross training has started. A physical office reconfiguration is in process which will allow three individual staff positions to be placed together. This will be one of the first steps in segregation of duties. Supervisory personnel will then be responsible for maintaining the segregation of duties.

Conclusion – Response accepted.

CITY OF FAIRFIELD, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

II-B-11 Initial List of Receipts – An initial listing of receipts is not prepared by the mail opener prior to forwarding the checks to the bookkeeper for receipt processing and deposit preparation.

Recommendation – The mail opener should prepare an initial listing of receipts and, after the receipts have been processed and the deposit has been prepared by the bookkeeper, an independent person should reconcile the initial listing against the deposit.

Response – This will be addressed as part of the office reconfiguration described above.

Conclusion – Response accepted.

II-C-11 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – With the changes to the accounting system which are in process, new internal control procedures will be implemented including accounts receivable reconciliation.

Conclusion – Response accepted.

II-D-11 Logan Apartments – The City owns an apartment complex with forty-seven units. The following were noted:

- a) The bookkeeping and custody of the Enterprise, Logan Apartments Deposit account certificate of deposit is under the control of the Manager of Logan Apartments in a location separate from the Clerk's office. This account is not reflected in the City's books. This matter was resolved for audit purposes.
- b) Duties are not segregated as the Manager prepares the tenant certifications, prepares housing assistance payment requests, collects rent, reconciles the rent receivable each month, collects and refunds security deposits and performs other accounting duties for the apartments.
- c) A current listing of security and pet deposits by tenant is not prepared and maintained.

Recommendation – Control activities for Logan Apartments should be reviewed to obtain the maximum internal control possible under the circumstances. A listing of rent receipts should be prepared. Also, prenumbered receipts should be issued for all cash collections. The receipt listing and prenumbered receipts should be reconciled each month to rent deposits per the City's records and rent receivables and should be reviewed by an independent person. In addition, a log of security and pet deposits by apartment should be maintained and reconciled to the City's records periodically by an independent person. Also, rent owed each month versus rent collected as well as rent receivables should be reconciled monthly and reviewed by an independent person.

Response – An internal review will be conducted to determine what new policies and procedures need to be implemented to provide the appropriate level of control.

Conclusion – Response accepted.

CITY OF FAIRFIELD, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

II-E-11 Parks and Recreation Receipts Process – The City's Parks and Recreation Department has weaknesses in segregation of duties for the collection of receipts, as follows:

- a) A receipt log of all Parks and Recreation receipts is prepared in the Department. However, an independent reconciliation is not performed to ensure all receipts per the receipt log were deposited by the City.
- b) Certain locations use a cash register for admissions and concession sales. The cash register tapes are not reconciled to the receipts log maintained at the Parks and Recreation Department by an independent person.
- c) Prenumbered receipts are used only upon request of the payee or when a credit card is used.
- d) One employee is responsible for collecting, depositing and reconciling receipts.

Recommendation – The City should develop procedures for the following:

- a) On a periodic basis, an independent person should reconcile the receipt log/deposit listing to the City Hall receipt confirmation and evidence this review by initialing the reconciliation.
- b) An independent person should reconcile the cash register tapes to the log and evidence the reconciliation by initialing the log.
- c) Prenumbered receipts should be issued for all collections which are not recorded through a cash register. On a periodic basis, a person independent of the receipt process should reconcile prenumbered receipts issued to deposits.
- d) The City should review its internal control procedures to obtain the maximum internal control possible under the circumstances.

Response – An internal review will be conducted to determine what new policies and procedures need to be implemented to provide the appropriate level of control including receipt registers and prenumbered receipts.

Conclusion – Response accepted.

II-F-11 Electronic Data Processing Systems – The City does not have a written policy to require users to use screen saver passwords to protect personal computers (PCs) during the day when left unattended.

Although there is a written policy for maintaining password privacy and confidentiality, it has a provision which can allow the City Administrator or other authorized personnel to require an employee to share their password.

The City's computer system does not identify who processed transactions.

The City does not have a written disaster recovery plan.

Recommendation – The City should develop a policy to require users to put in place a screen saver password to protect PCs during the day when left unattended.

To improve the City's control over its computer-based systems, the City should revise the written policy addressing password privacy to not allow the sharing of passwords.

The City's computer system should identify who processes transactions.

The City should adopt a written disaster recovery plan.

Response – Almost all of our PCs do have screen saver passwords at this time. We will work on a policy addressing the sharing of passwords and developing a disaster recovery plan.

Conclusion – Response accepted.

CITY OF FAIRFIELD, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

- II-G-11 Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – As part of the new accounting policies and procedures manual, a policy will be implemented for credit card use.

Conclusion – Response accepted.

- II-H-11 Bank Reconciliation – Several items were noted on the City's bank reconciliation that should be posted to the general ledger and removed from the reconciliation.

Recommendation – The City should review the bank reconciliation and adjust and remove items from the reconciliation as appropriate.

Response – The reconciliation will be reviewed and adjusted.

Conclusion – Response accepted.

Instances of Noncompliance – No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

CFDA Number 20.106: Airport Improvement Program
U.S. Department of Transportation

- III-A-11 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-11.

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the community and economic development, general government, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

CITY OF FAIRFIELD, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

Response – With the change to the new accounting system, new reporting standards will also be set to ensure internal review of budget items on a monthly basis. Any amendments will be brought to the City Council and addressed in a timely manner.

Conclusion – Response accepted.

The City amended its budget on July 5, 2011. Chapter 384.18 of the Code of Iowa states, "A city budget shall be amended by May 31 of the current fiscal year."

Recommendation – The City should, prior to May 31st, complete all budget amendments.

Response – We will do so from now on.

Conclusion – Response accepted.

IV-B-11 Questionable Disbursements – No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-11 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-11 Financial Condition – At June 30, 2011, the City had deficit balances in the following accounts:

CITY OF FAIRFIELD, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

<u>Fund/Account</u>	<u>Amount</u>
Fire Truck	\$ 3,374
Iowa Power	62,337
Civic Center Purchase	14,413
Safe Routes to School	4,369
Loop Trail West	38,501
Civic Center	10,422
Recreation Trails	7,099
Highway 1 Bridge Project	1,034
Filmore Kirkwood	19,664
Downtown Fund	350,439
Sidewalk Improvements	369,465
Walton Lake Subdivision	193,125
2008 RISE	6,124
Bypass Forcemain Relocation	45,735
Bypass Cross Interceptor Relocation	134,109
Bypass Crow Creek Relocation	27,150
Bypass Water Main Relocation	292,422
Runway 18/36 Phase II	83,269
2006 Street Project	27,156
Kirkwood	188,471
Debt Service	403,890
State Revolving	277,449
Sinking	29,837
Utility	266,556
Yard Waste	157,484

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response – Each account is being evaluated. Some accounts will be merged with other accounts to streamline the operation and bring records up to date. Rates will be evaluated to ensure costs are covered.

Conclusion – Response accepted.

IV-I-11 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolution were noted.

IV-J-11 Chart of Accounts – In January 2003, the City adopted the revised Uniform City Chart of Accounts for reporting purposes. However, as of June 30, 2011, the computer system has not been converted to the new Chart of Accounts.

Recommendation – The City should convert the computer system to the new Chart of Accounts adopted in January 2003.

Response – This project is underway. The software transition is set for late February. By July 2011, the City will be using the City Finance Committee recommended chart of accounts.

Conclusion – Response accepted

CITY OF FAIRFIELD, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

IV-K-11 Separately Maintained Records – The Special Revenue, Indian Creek Escrow, Library Memorial, Library Building Trust, Fairfield Public Library House and Live on the Square Funds, Enterprise, Logan Apartment certificate of deposit and the Permanent, Library Endowment Funds were not reflected in the City's accounting system or monthly fund balances.

Recommendation – Chapter 384.20 of the Code of Iowa requires a City to keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose.

The Special Revenue, Indian Creek Escrow, various Library funds and Live on the Square activity, the Enterprise, Logan Apartment certificate of deposit and the Permanent, Library Endowment Fund should be reflected in the City's monthly financial statements.

Response – Communication will be made with each of these entities to determine the appropriate direction which should be taken for the accounts described above.

Conclusion – Response accepted.

IV-L-11 Tax Increment Financing (TIF) – The City has certified debt in five urban renewal areas with debt included on the City's TIF Indebtedness Certification. TIF receipts for all five urban renewal areas are included in one Special Revenue, Urban Renewal Tax Increment Financing Fund of the City and the City does not maintain the receipts and disbursements of each urban renewal area separately.

The City transferred \$253,181 from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund to reimburse the Debt Service Fund for the TIF portion of the general obligation notes. However, the TIF portion of the general obligation note principal and interest due in the fiscal year ended June 30, 2011 was \$118,557. Therefore, the City transferred \$134,624 more than was required from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund in the fiscal year ended June 30, 2011. Also, in prior years, the City transferred \$155,226 more than was required from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund, for a total of \$289,850.

The City's general obligation capital loan notes, series 2001A, is split between three urban renewal areas and a portion which is not TIF related. When the City included the TIF portions on the City's TIF Indebtedness Certification, the allocation between the three urban renewal areas and the portion which is not TIF related was miscalculated, which resulted in too much TIF debt being included on the City's TIF Indebtedness Certification for each of the three TIF districts by \$118,270, \$16,340 and \$60,667, or a total of \$195,277. The last payment on the notes is due in the fiscal year ending June 30, 2016.

Recommendation – The City should establish subaccounts for the Special Revenue, Urban Renewal Tax Increment Financing Fund to record receipts, disbursements and a fund balance separately for each urban renewal area to match TIF tax collections with the TIF debt paid for each urban renewal area.

The City should only make transfers from the Special revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service fund for the TIF debt coming due in the fiscal year. Also, the City should transfer \$289,850 from the Debt Service Fund to the Special Revenue, Urban Renewal Tax Increment Financing Fund to reimburse the Special Revenue, Urban Renewal Tax Increment Financing Fund.

The City should complete and send Form 3, the TIF Indebtedness Certification, to the County Auditor to reduce the TIF indebtedness outstanding for the amounts overcertified.

The City should consult bond counsel to determine the disposition of these issues.

Response – The City will complete and send Form 3, the TIF Indebtedness Certification, to the County. With the new accounting structure, subaccounts will be managed and better detailed record keeping will be implemented. The City will try to repay the \$289,850 to the Special Revenue, Urban Renewal Tax Increment Financing Fund.

Conclusion – Response accepted.